

## Message Text

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R 212028Z JAN 74

FM AMEMBASSY LONDON

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INFO AMEMBASSY BONN

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ENRG, UK

SUBJECT: IMPACT OF ENERGY SITUATION ON 1974 DOMESTIC

ECONOMIC PROSPECTS; T/IEP FOREIGN MINISTERS

MEETING ON INTERNATIONAL ENERGY PROBLEMS

REF: 1) STATE 7324; 2) STATE 2951; 3) LONDON 14808;

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7) LONDON 525; 8) LONDON 626 9) LONDON A-54 OF

1-17-74; 10) LONDON 12842; 11) LONDON 14988

SUMMARY: THE EMBASSY IS COMBINING ITS RESPONSE TO THE TWO REFERENCED STATE TELEGRAMS. WE DRAW ATTENTION OF WASHINGTON AGENCIES TO REFERENCED LONDON MESSAGES WHICH GIVE PRELIMINARY ASSESSMENTS OF IMPACT OF OIL SHORTAGE AND 3-DAY POWER LIMIT ON BRITISH INDUSTRY AND FULL REVIEW OF BALANCE OF PAYMENTS OUTLOOK. SITUATION HERE ON POWER SUPPLIES TO INDUSTRY IS CHANGING. ENERGY MINISTER CARRINGTON STATED THAT COAL STOCK SITUATION SUCH THAT INCREASE OF LIMIT ON POWER TO FOUR DAYS PER WEEK MAY BE POSSIBLE. SOME ANNOUNCEMENT EXPECTED THIS WEEK. IT WAS ALSO ANNOUNCED THAT STEEL INDUSTRY WILL BE ABLE USE NORMAL AMOUNTS OF POWER, RETURN TO FULL WORK WEEK. THUS OUTPUT MAY NOT FALL AS MUCH AS INITIALLY EXPECTED FROM POWER LIMITATIONS TO INDUSTRY OR FROM STEEL SHORTAGES. UK IS DEALING WITH TWO ENERGY SHORTAGES: FIRST FROM OIL CUTBACKS; SECOND FROM COAL PRODUCTION SHORTFALL RESULTING FROM COAL MINERS' INDUSTRIAL ACTION MAINLY AFFECTING ELECTRICITY PRODUCTION. THIRD ELEMENT IMPINGING ON OUTPUT AND INCOME, AS WELL AS INFLATION, IN 1974 IS OIL PRICE RISE. IN SHORT TERM, IT IS DIFFICULT TO SEPARATE THESE ELEMENTS. ABSTRACTING FROM COAL INDUCED SHORTAGES OF ELECTRIC POWER, IT APPEARS OIL SHORTAGES AND OIL PRICE HIKES WOULD HAVE REDUCED UK GDP GROWTH IN 1974 TO ABOUT ZERO AND PRODUCED AN INFLATION RATE OF OVER TEN PERCENT. WITH THE COAL-INDUCED POWER CUTBACKS TO INDUSTRY, THE PROSPECTS ARE FOR NEGATIVE GROWTH AND INFLATION OF CLOSER TO 15 PERCENT. THE LONGER THE COAL SHORTAGES PERSIST, THE WORSE THE SITUATION WILL BECOME. STRUCTURAL CHANGES TO SHIFT THE ECONOMY AWAY FROM ENERGY INTENSIVE GOODS ARE LIKELY. COAL SHOULD BECOME A MORE IMPORTANT INDUSTRY WITH A MUCH HIGHER RETURN TO FACTORS OF PRODUCTION. MATERIAL SHORTAGES ARE LIKELY TO EXACERBATE THE ECONOMIC IMPACT OF OIL AND COAL SHORTAGES, THOUGH STEEL--WHICH SEEMED THE MOST IMPORTANT SHORTAGE ITEM--MAY NOT BE AS SEVERE A PROBLEM AS EXPECTED. INDUSTRY HAS ADJUSTED TO THE FIRST TWO WEEKS OF 3-DAY POWER SURPRISINGLY WELL (SEE REFTTEL 7).  
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IT NOW APPEARS THAT POWER LIMITATIONS WILL HAVE A LESS SEVERE IMPACT ON OUTPUT THAN ORIGINALLY FEARED, THOUGH THE IMPACT IS CERTAIN TO GROW. POLICY RESPONSES APPEAR PREDICTABLE. FISCAL POLICY WILL PROBABLY TIGHTEN. MONETARY POLICY WILL REMAIN TIGHT. WITHIN GIVEN INDUSTRIAL SECTORS, AND WITH SOME SUPPORT FROM UNION AND BUSINESS GROUPS, THERE IS PRESSURE FOR TRADE RESTRICTIONS BUT THE GOVERNMENT HAS NOT INDICATED THAT IT IS PLANNING ANY SUCH ACTION. END SUMMARY

1. THE OUTLOOK IS FOR ZERO TO NEGATIVE GROWTH. FROM ALL EVIDENCE, BRITAIN'S GDP GROWTH RATE IN 1974 IS LIKELY TO BE IN A RANGE ZERO TO MINUS 3-4 PERCENT. THE OUTCOME DEPENDS HEAVILY ON THE LENGTH OF THE PRESENT IMPASSE OVER THE COAL MINERS WAGE CLAIMS AND THE LIMIT TO 3-DAY WEEK ELECTRICAL POWER TO INDUSTRY. AT BEST, WITH NORMAL WORKING RESUMED BEFORE THE END OF JANUARY, IT APPEARS THAT THE OIL SHORTAGES WILL RESTRICT INDUSTRIAL OUTPUT LIMITING GDP GROWTH TO LITTLE MORE THAN ZERO. IF THE LIMIT ON ELECTRICAL POWER USAGE BY INDUSTRY CONTINUES FURTHER, THE GROWTH RATE IS VERY LIKELY TO BE NEGATIVE.

2. THE UK TREASURY IS NOW IN PROCESS OF FORECASTING FOR

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R 212028Z JAN 74

FM AMEMBASSY LONDON

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INFO AMEMBASSY BONN

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1974 WITH VARIOUS ASSUMPTIONS ABOUT THE 3-DAY WEEK AS WELL AS NEW OIL PRICES AS VARIABLES. THEIR PRELIMINARY AND ROUGH ESTIMATES OF 1974 GDP GROWTH, GIVEN THE OIL SHORTAGE AND THE ELECTRICITY LIMITATIONS, APPEAR ABOUT AS REPORTED IN REFTEL 5. WITH A TEN PERCENT SHORTFALL IN OIL, TREASURY SAW A 1 TO 2 PERCENT IMPACT ON INDUSTRIAL PRODUCTION AND, PERHAPS, HALF A PERCENTAGE POINT EFFECT ON GDP GROWTH. A MORE THAN 10 PERCENT SHORT-  
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FALL IN OIL WOULD HAVE HAD A PROPORTIONATELY LARGER IMPACT. THE MINERS INDUSTRIAL ACTION AND THE 3-DAY-PER-WEEK LIMIT ON ELECTRICAL POWER TO INDUSTRY HAS MEANT THAT POWER STATIONS WILL USE MORE OIL THAN PLANNED, DIVERTING IT FROM OTHER INDUSTRIAL USES. THUS REDUCING THE OIL SUPPLY TO INDUSTRY 15 TO 20 PERCENT. THE TREASURY PRELIMINARY ESTIMATE IS THAT INDUSTRIAL GROWTH WILL BE REDUCED BY A SUBSTANTIALLY LARGER AMOUNT, AND GDP GROWTH WILL BE ZERO AT A MAXIMUM.

3. THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH IS ALSO IN THE PROCESS OF ITS FORECAST UNDER VARIOUS ASSUMPTIONS REGARDING OIL SHORTAGES AND THE ELECTRIC POWER LIMITS. THEIR PRELIMINARY STAFF ESTIMATES ARE FOR A PLUS TWO TO MINUS SIX PERCENT GROWTH RATE FOR GDP, DEPENDING ON WHETHER THE ELECTRICITY SITUATION RETURNS TO NORMAL IN JANUARY (THE HIGH FIGURE) OR IN MID-MAY (THE LOW FIGURE). THEY ASSUME A 15 PERCENT SHORTFALL IN OIL SUPPLY TO INDUSTRY THROUGH MAY (DUE TO THE COAL SHORTFALL) THEN FROM JUNE AN OIL SUPPLY AT SEPTEMBER 1973 LEVELS AND A NORMAL GROWTH TREND IN OIL SUPPLY (FIVE PERCENT ANNUALLY). THE NIESR ESTIMATION PROCESS WILL NOT BE COMPLETE FOR SEVERAL WEEKS.

4. THE LONDON BUSINESS SCHOOL FORECAST BY JAMES BALL AND TERRY BURNS HAS JUST APPEARED (REF 9). THIS ECONOMETRIC FORECAST, WITH THE IMPACT OF OIL SHORTAGES AND 3-DAY POWER LIMITS ADDED IN A JUDGMENTAL FASHION, ASSUMES THAT OIL CONSUMPTION WILL RETURN TO AND REMAIN AT THE 4TH QUARTER 1973 LEVEL THE SECOND HALF OF 1974 AND THAT OIL SUPPLY WILL BE REDUCED FROM THE 4TH QUARTER 1973 LEVEL BY 15 PERCENT IN FIRST QUARTER 1974 AND BY 10 PERCENT IN THE 2ND QUARTER 1974. THEY ALSO ASSUME THE 3-DAY POWER LIMIT WILL CONTINUE THROUGH FEBRUARY. WITH THIS,

BALL AND BURNS FORECAST A LOSS OF 12 PERCENT IN BRITISH OUTPUT IN THE FIRST QUARTER, WITH MANUFACTURING OUTPUT FALLING BY 20 PERCENT, OTHER INDUSTRY OUTPUT BY 13 PERCENT, AND SERVICES BY 7 PERCENT. THIS TRANSLATES, IN THIS FORECAST, TO A ONE PERCENT FALL IN GDP IN 1974.

5. THE BANK OF ENGLAND HAD FORESEEN A GDP GROWTH RATE OF LIMITED OFFICIAL USE  
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ZERO TO ONE PERCENT PRIOR TO THE 3-DAY POWER LIMIT BASED ON AN ASSUMPTION OF AN OIL SUPPLY REDUCTION OF 10 PERCENT BELOW THE 1973 LEVEL. WITH 3-DAY POWER LIMITS, BANK OF ENGLAND SEES ZERO GROWTH AT BEST, AND PROBABLY NEGATIVE GROWTH (MINUS 1 TO 2 PERCENT A REAL POSSIBILITY).

6. RETAIL PRICES MAY INCREASE BY 14 TO 15 PERCENT. AS INDICATED, AT PRESENT MOST FORECASTERS HERE ARE UNCERTAIN ABOUT WHAT ASSUMPTIONS TO MAKE REGARDING DOMESTIC EFFECTS OF THE THREE-DAY POWER LIMIT AND LATEST OIL PRICE RISES. THUS WE HAVE ONLY TENTATIVE ESTIMATES ON PRICES IN 1974. PRIOR TO THE 3-DAY WEEK, BANK OF ENGLAND FORECASTERS PUT 1974 RETAIL PRICES RISING AT ABOUT 10 PERCENT UNDER FAVORABLE ASSUMPTIONS. BALL-BURNS AT LBS SEE RETAIL PRICE INDEX RISING MORE THAN 13 TO 14 PERCENT UNDER THE ASSUMPTIONS MENTIONED ABOVE (PARA 4). TREASURY IS STILL RUNNING ITS FORECASTS; OFFICIALS IN PRIVATE CONVERSATIONS SPEAK OF STAGFLATION, WOULD PROBABLY NOT ARGUE WITH 12 TO 13 PERCENT FORECAST. ALAN WALTERS, PROFESSOR AT LONDON SCHOOL OF ECONOMICS, ESTIMATES PRICE INCREASES OF 14 TO 17 PERCENT.

7. REAL WAGES WILL BE STAGNANT OR FALL. THERE WILL BE A SHARP INCREASE IN UNEMPLOYMENT. THE SETTLEMENT TO THE MINERS DISPUTE WILL BE INFLATIONARY AND EXTERNAL PRESSURE ON PRICES WILL BE STRONG. THE GOALS OF STAGE 3 OF THE GOVERNMENT'S PROGRAM TO CONTROL INFLATION WILL NOT BE MET. A MAJOR QUESTION IS WHEN AND HOW THE PROGRAM WILL BE BE READJUSTED IN LIGHT OF THE OIL PRICE INCREASES. WAGE INCREASE OF UP TO 14 PERCENT APPEAR POSSIBLE IN 1974, ESPECIALLY ONCE THE COST OF LIVING CLAUSES COME INTO EFFECT (I.E., WHEN PRICES EXCEED 7 PERCENT OF THE END OCTOBER LEVEL). THIS COULD BE AS EARLY AS APRIL AND AT THIS POINT THERE WILL BE ADDED DOMESTIC PRESSURE AS WAGES AND PRICES PUSH EACH OTHER OUPWARDS, UNLESS THE GOVERN-

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MENT AMENDS ITS PROGRAM; IT IS LIKELY TO DO SO. IN  
EITHER CASE, ADDING IN THE INCREMENTAL EFFECTS OF EXTER-  
NAL PRICE RISES, THE WORKERS' REAL STANDARD OF LIVING  
WILL FALL, OR BE STAGNANT AT BEST. UNEMPLOYMENT WILL  
INCREASE SHARPLY. OFFICIAL PROJECTIONS FOR UNEMPLOYMENT  
LEVELS ON A NATIONAL SCALE ARE NOT AVAILABLE. IT IS  
HARD TO COMPARE THE OUTLOOK WITH THE CURRENT SITUATION,  
BECAUSE OF THE ADDITIONAL UNEMPLOYMENT AND SHORT  
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TIME WORK RESULTING FROM THE 3-DAY WEEK. NORMAL UNEMPLOYMENT AT THE END OF 1973, LEAVING ASIDE THE 3-DAY WEEK, WAS ABOUT 500,000. THE LONDON BUSINESS SCHOOL EXPECTS THIS FIGURE TO INCREASE TO 800,000 (ROUGHLY ABOUT 3.2 PERCENT BY U.K. DEFINITION BASED ON OUR ESTIMATES OF GROWTH OF U.K. LABOR FORCE) BY THE END OF 1974 IN CONNECTION WITH A 1 PERCENT FALL IN GDP. THE PRESENT UNEMPLOYMENT RATE IS 2.2 PERCENT.

8. RESEARCH BY THE FINANCIAL TIMES SHOWS THAT THE LEADING INDUSTRIES CONSUMING ENERGY FROM ALL SOURCES IN THE U.K., AFTER ELECTRIC POWER GENERATION, ARE THOSE PRODUCING CEMENT, STEEL, FERTILIZERS, CHEMICALS, IRON CASTINGS, BRICKS AND FIRECLAYS, BUILDING MATERIALS AND CANS AND METAL BOXES, IN THAT ORDER (BY VALUE OF TOTAL FUEL USED). ALTHOUGH THE LISTS OF CONSUMING INDUSTRIES VARY SOMEWHAT WITH RESPECT TO THE TYPE OF ENERGY (I.E., COAL OR OIL) THE ABOVE PRODUCTION GROUPS ARE THOSE MOST AFFECTED BY THE CURRENT SHORTAGES. (INDUSTRIES USING NATURAL GAS ARE INCLUDED IN THE OVERALL LISTING.) OTHER PRODUCTS OF HIGH IMPORTANCE AS INPUTS ARE SYNTHETICS, PLASTICS AND RUBBER. THE FINANCIAL TIMES, ASSUMING AN INCREASE OF CRUDE OIL PRICES BY 300 PERCENT OVER THE 1968 LEVEL, BELIEVES THAT NEARLY SEVEN PERCENT WILL BE ADDED TO THE INDEX OF U.K. EXPORT COSTS AND 2.6 PERCENT TO THE CAPITAL GOODS PRICE INDEX. THUS, THERE IS A CLEAR LIKELIHOOD THAT THE SECTORAL PATTERN OF U.K. INDUSTRY OBTAINING AT THE END OF 1973, ESPECIALLY AS IT RELATED TO VITAL EXPORT ACTIVITIES, WILL UNDERGO MODIFICATION DURING 1974. IN THE SHORT RUN OUTPUT REDUCTIONS BY THESE INDUSTRIES COULD EXACERBATE THE INDUSTRIAL CRISIS BY CREATING MATERIALS SHORTAGES, PREVENTING OTHER INDUSTRIES FROM PRODUCING EVEN UP TO 3-DAY PER WEEK CAPACITY. MOREOVER, SHORTAGES OF SUCH MATERIALS WILL INCREASE THE DEMAND FOR IMPORTS.

9. THE OVERALL POLICY IMPLICATIONS AND RESPONSES OF ALL THIS ARE NOT YET CLEAR, BUT SOME PRELIMINARY JUDGMENTS ARE POSSIBLE. THERE IS LITTLE DOUBT THAT THE NEXT BUDGET (DUE IN MARCH OR APRIL) WILL TIGHTEN FISCAL POLICY. OUR ASSESSMENT IS THAT THE SQUEEZE WILL COME  
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MAINLY ON THE GOVERNMENT EXPENDITURE SIDE, BUT THERE MAY BE SOME TAX INCREASES AS WELL, IN PART DESIGNED TO PROMOTE SHIFTS OF RESOURCES FROM CONSUMPTION GOODS, AND TO FAVOR SHIFTS TOWARDS INVESTMENT IN ENERGY, IMPORT SUBSTITUTION, AND EXPORT INDUSTRIES, AWAY FROM NON-ESSENTIAL INDUSTRIES. THE MINI-BUDGET OF DECEMBER 17, REDUCED PUBLIC EXPENDITURE BY 1.2 BILLION POUNDS. THIS WAS DIRECTED MAINLY AT REDUCING CONSUMER DEMAND AND

DIVERTING RESOURCES TO EXPORTS IN THE LATTER HALF OF  
1974. IT CAME BEFORE THE LATEST DECEMBER OIL PRICE  
RISES.

10. THE PUBLIC EXPENDITURE "WHITE PAPER" ISSUED IN  
DECEMBER CALCULATES FUTURE PUBLIC EXPENDITURE TRENDS ON  
A 3.5 PERCENT GROWTH RATE OF GDP WITH A "LOW INVESTMENT"  
AND "HIGH INVESTMENT" OPTION. IN EITHER CASE PUBLIC  
EXPENDITURE WAS EXPECTED TO RISE ON AN AVERAGE BY 2.9  
PERCENT FROM 1972 TO 1978 AND FROM 1974 TO 1978 THE  
AVERAGE GROWTH OF PUBLIC EXPENDITURE WAS CALCULATED TO  
BE ABOUT 2 PERCENT. HOWEVER, U.K. TREASURY OFFICIALS  
TELL US THAT THE NEW SITUATION UNDOUBTEDLY WILL REQUIRE  
REDUCTIONS IN THAT AVERAGE GROWTH RATE, BUT THEY ARE  
UNABLE TO SPECIFY AMOUNT OR AREA. THEY BASE THE NEED  
FOR REDUCTIONS ON THE NEED FOR MORE RESOURCES IN THE  
EXPORT SECTOR AS WELL AS THE NEED TO MAINTAIN RESOURCE  
GROWTH IN THE PRIVATE SECTOR, MAINLY FOR INVESTMENT.  
THESE TWO ELEMENTS WILL REMAIN KEY PRIORITIES IN GOVERN-  
MENT POLICY.

11. FROM OUR DISCUSSIONS, WE SUSPECT THAT THE GOVERNMENT  
WILL TRY TO AVOID FURTHER "ACROSS THE BOARD" TAX  
INCREASES BECAUSE OF THEIR POLITICAL (AND IN SOME  
CASES INFLATIONARY) REPERCUSSIONS. IF THE PRESENT  
SITUATION OF REDUCED OUTPUT AS A RESULT OF  
INDUSTRIAL UNREST CONTINUES THROUGH MARCH, HOWEVER,

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SOME DIRECT PERSONAL TAX RISES MAY BE NECESSARY TO REDUCE DEMAND FURTHER, AND TAX POLICY WILL BE USED FOR MORE IMMEDIATE DEMAND MANAGEMENT PURPOSES. AN INCREASE IN THE CORPORATE TAX RATE TO 50 PERCENT (FROM 40 PERCENT) FOR 1973 IS ALREADY PLANNED, WITH THE BRINGING INTO FORCE OF THE IMPUTATION TAX SYSTEM.

12 MONETARY POLICY WILL REMAIN GENERALLY TIGHT. THERE  
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WILL PROBABLY BE SOME GREATER FLEXIBILITY OR SHORT TERM EASE INTRODUCED TO AVOID BANKRUPTCIES AS RESULT OF REDUCED CASH FLOW, IN PART DUE TO 3-DAY WEEK. RATES OF INTEREST WILL HIT NEW HIGHS, REFLECTING INFLATION. MONETARY POLICY WAS TIGHTENED SIGNIFICANTLY IN THE CHANCELLOR'S MINI-BUDGET OF DECEMBER 17 WHICH IMPOSES PENALTY IF AN AVERAGE BASE OF INTEREST BEARING RESOURCES OF BANKS EXCEEDS RATE OF GROWTH OF 8 PERCENT DURING FIRST SIX MONTHS OF 1974. IN ADDITION, BANKS WERE ASKED TO REENFORCE STRONGLY RESTRAINT ON LOANS TO PRIVATE INDIVIDUALS, PROPERTY COMPANIES, AND FOR PURELY FINANCIAL TRANSACTIONS. THIS GENERALLY RESTRICTIVE POLICY WILL CONTINUE.

TO EASE CURRENT STRAIN, BANK OF ENGLAND COULD SELECTIVELY EXEMPT CERTAIN INDUSTRIAL SECTORS FROM LENDING RESTRAINTS BUT THIS IS UNLIKELY. MORE PROBABLE IS EITHER THE RELEASE OF SOME SPECIAL DEPOSITS CURRENTLY HELD BY THE BANK OF ENGLAND, (I.E., SPECIAL RESERVES ALREADY TAKEN FROM THE BANKING SYSTEM) OR ELSE MAKING SOME MODIFICATION IN THE TIMING OR PENALTY PERCENTAGE IMPOSED IN

DECEMBER.

13. IT IS UNLIKELY THAT U.K. INTEREST RATES CAN DECLINE UNLESS U.S. RATES DECLINE TOO. THE EXPECTATION IS FOR SOME EASING IN U.S. RATES, BUT NOT MUCH. OFFSETTING THIS MAY BE A GENERALLY HIGHER UPWARD TREND IN DOMESTIC RATES TO REFLECT HIGHER DOMESTIC INFLATION. IN ANY CASE, THE U.K. WILL MAINTAIN INTERNATIONAL RATE COMPETITIVENESS VIS-A-VIS OTHER MAJOR FINANCING CENTERS.

14. THE FIRST QUARTER OF 1974 SHOULD ALSO SEE TIGHTER THAN USUAL MONETARY CONDITIONS FOR TECHNICAL REASONS. THIS IS THE TAX PAYING PERIOD, WHEN ROUGHLY 70 PERCENT OF CORPORATE TAX PAYMENTS ARE MADE. THE BANKING SYSTEM WOULD NORMALLY EXPECT TO COME UNDER SOME STRAIN. ONE PALLIATIVE MAY BE THAT THE TREASURY WILL NOT PENALIZE LATE TAX PAYMENTS.

15. SOME FORM OF RELIEF OR ATTEMPT TO LOWER INTEREST RATES IN THE INDIVIDUAL HOUSING SECTOR WILL BE CONSIDERED AND PERHAPS ADOPTED. HOUSING STARTS ARE FALLING  
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RAPIDLY. THE LONDON BUSINESS SCHOOL FORECASTS A DROP IN REAL INVESTMENT IN DWELLING OF ABOUT 17 PERCENT DURING THE YEAR. THE FALL IN DEMAND IS ATTRIBUTED TO BOTH HIGH MORTGAGE RATES OF INTEREST AND TO AN EXPECTATION THAT HOUSING PRICES MAY FALL WITH CONTINUED WEAK DEMAND IN THE MARKETS. HOUSING AND PROPERTY SPECULATORS ARE IN FOR ROUGH TIMES, AND THERE MAY BE SOME SPECTACULAR BANKRUPTCIES.

16. TO THE EXTENT THAT THE EFFECTS OF THE 3-DAY WEEK CAN BE EXCLUDED, THE BANK OF ENGLAND PROBABLY CONSIDERS THAT MONETARY TIGHTNESS IS CURRENTLY "ABOUT RIGHT." TAKING INTO ACCOUNT THE THREE-DAY WEEK, IT IS CURRENTLY TIGHTER THAN THE BANK WOULD HAVE WISHED. THE BANK EXPECTS A DEFLATIONARY BUDGET TO REMOVE EXCESS DEMAND. IT HOPES THAT MONETARY POLICY WILL NOT BE CALLED ON TO PLAY TOO MUCH MORE OF A RESTRICTIVE ROLE THAN IT DOES AT PRESENT. ANALYSIS OF MONETARY POLICY BASED ON CONVERSATIONS WITH OFFICIALS OF THE BANK OF ENGLAND, AND BARCLAY'S BANK, NATIONAL WESTMINSTER, AND SCHRODER WAGG.

17. THE GOVERNMENT CURRENTLY HAS NO PLANS TO INTRODUCE WIDE RANGING TRADE CONTROLS. HOWEVER, THERE ARE PRESSURES ON THE GOVERNMENT TO INSTITUTE BOTH IMPORT AND EXPORT CONTROLS. SUCH PRESSURES COME FROM BOTH SIDES OF INDUSTRY. THE TUC ADVOCATES IMPORT RESTRICTIONS AS A WAY OF LEAVENING THE BALANCE OF PAYMENTS PROBLEM. SOME INDUSTRIES ADVOCATE EXPORT CONTROLS TO CONSERVE

IMPORTANT RAW MATERIALS SUCH AS STEEL, PLASTICS, AND  
PETROCHEMICALS. SOME FORECASTERS AND RESPONSIBLE PRESS  
RAISE THE NEED FOR IMPORT RESTRICTIONS ON LUXURY GOODS.  
THE GOVERNMENT WOULD BE RELUCTANT TO TAKE SUCH ACTION FOR  
FEAR OF RETALIATION BY OTHER COUNTRIES AND BECAUSE OF  
THE DIFFICULTIES OF ADMINISTERING SUCH CONTROLS. ON THE

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OTHER HAND, IN NOVEMBER THE U.K. IMPLEMENTED CONTROLS ON EXPORTS OF GASOLINE AND FUEL OILS TO COUNTRIES OUTSIDE THE EC (SEE REFTEL 10) AND IN DECEMBER THEY RESTRICTED THE MOVEMENT OF OIL PRODUCTS FROM BRITISH REFINERIES TO OTHER EC COUNTRIES (SEE REFTEL 11). SHOULD SHORTAGES OF OTHER ESSENTIAL MATERIALS BECOME CRITICAL, THE GOVERNMENT COULD BE FORCED THROUGH DOMESTIC PRESSURE INTO TAKING BROADER ACTION. IN RESTRICTING EXPORTS OR IMPORTS, THE LIMITED OFFICIAL USE  
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UK WILL BE CONSTRAINED BY ITS EC AND GATT OBLIGATIONS. IT IS POSSIBLE, HOWEVER, FOR AN EC MEMBER TO STATE TO TAKE SUCH ACTION IN AN EMERGENCY.

18. LIBERALIZING IMPORTS AS A WAY OF COMBATTING INFLATION HAS BEEN UNDER CONSIDERATION IN THE EC. THE BRITISH ARE UNLIKELY TO FAVOR SUCH ACTION, AND AS PRICES INCREASE WILL SEEK TO SHIFT RESOURCES INTO IMPORT SUBSTITUTES TO HELP THE BALANCE OF TRADE.

19. FOR ASSESSMENT OF THE IMPACT OF OIL SHORTAGES, PRICE RISES, AND 3-DAY POWER LIMIT FOR INDUSTRY ON THE EXTERNAL SECTOR, SEE REFTEL 8.

ANNENBERG

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, PETROLEUM, SUPPLIES, GDP, CONSERVATION, INDUSTRIAL PRODUCTION, ECONOMIC REPORTS, FOREIGN MINISTERS MEETINGS, PRICES, MINING IN DUSTRY, TRADE CONTROLS, LABOR STRIKES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 21 JAN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LONDON00949  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740128/aaaaazs.tel  
**Line Count:** 629  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 12  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 1) STATE 7324; 2) STATE 2951; 3) LON, DON 14808;  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 23 JUL 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <23-Jul-2001 by maustmc>; APPROVED <29 MAY 2002 by morefirh>  
**Review Markings:**

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EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** IMPACT OF ENERGY SITUATION ON 1974 DOMESTIC ECONOMIC PROSPECTS; T/IEP FOREIGN MINISTERS  
**TAGS:** EFIN, ENRG, UK, US  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005